



TITLE:

THE WEI WAH SYSTEM AS A SPECIAL CREDIT SYSTEM OF CHINA

AUTHOR(S):

Kojima, Shotaro

CITATION:

Kojima, Shotaro. THE WEI WAH SYSTEM AS A SPECIAL CREDIT SYSTEM OF CHINA. Kyoto University Economic Review 1941, 16(4): 1-19

ISSUE DATE:

1941-10

URL:

https://doi.org/10.11179/ker1926.16.4_1

RIGHT:

Kyoto University

Economic Review

MEMOIRS OF
THE DEPARTMENT OF ECONOMICS
IN
THE IMPERIAL UNIVERSITY OF KYOTO

VOLUME XVI
1941

PUBLISHED BY THE DEPARTMENT
OF ECONOMICS IN
THE IMPERIAL UNIVERSITY OF KYOTO

KYOTO UNIVERSITY ECONOMIC REVIEW

MEMOIRS OF THE DEPARTMENT OF
ECONOMICS IN THE IMPERIAL
UNIVERSITY OF KYOTO

VOLUME XVI

(October 1941)

NUMBER 4

THE WEI WAH SYSTEM AS A SPECIAL CREDIT SYSTEM OF CHINA¹⁾

By SHOTARO KOJIMA

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CHAPTER 1. THE MONETARY NATURE OF *LINGYUNG* WEI WAH

In my former article, I described the nature of the Wei Wah system (匯割制度) as practiced in Shanghai at present and viewed it as a form of monetary development. A further observation of this system reveals the fact that it is not merely a system of clearing of bills but rather it

1) To the readers of this article is recommended the author's former article "Special Currency System of China, — A Study on the "Wei Wah" System in Shanghai". The KYOTO UNIVERSITY ECONOMIC REVIEW Vol. XVI No. 3, July 1941.

is also a credit system of financial accomodation and circulation. And it is to be noted that, the direct and greatest function in this credit system is performed no doubt by the so-called "Bankers' Wei Wah", drafts (同業匯割) drawn by the banks and native banks on themselves, and that the *lingyung* Wei Wah (領用匯割)²⁾ in this case, is the basis of the said credit system.

As has been already observed, the "Bankers' Wei Wah" is used by both banks and native banks in paying out deposits or in advancing funds, at the request of their business customers. In such cases, the "Bankers' Wei Wah" though not cash currency is capable of being used for these purposes, because banks and native banks are trusted by their customers. Moreover, customers can also use the "Bankers' Wei Wah" they receive from banks or native banks in making payments or in settling transactions, because, in a nutshell, the banks and native banks have credit with the customers.

However, inasmuch as the possessor of the "Bankers' Wei Wah" draft does not ask payment thereon to a bank or native bank and at present it is not turned into cash, it must be either deposited with a bank or used in the payment of debts. In such cases, those which receive deposits or payment of debts mostly are not the banks or native banks which drew the "Bankers' Wei Wah" drafts, but rather other banks or other native banks. In consequence, the "Bankers' Wei Wah" drafts will be transferred to banks or native banks which are other than those which drew these drafts. In other words, many banks and native banks in

2) The fund used for clearing balance, in this system, is created by the mutual indebtedness between the Joint Reserve Board and the member banks, e.i., the member banks, if they desire, pledging certain securities to the Board in order to receive the necessary fund with the "Bankers' Wei Wah", which is granted by the Board and at the same time deposited at the Board by the member banks for the purpose of settling the clearing balance. Such granting transactions of the "Bankers' Wei Wah" to the member banks by the Board is called *Lingyung* (領用), so I shall also call in this treatise the "Bankers Wei Wah" which is granted to the member banks by the Board the *Lingyung* Wei Wah".

Shanghai will receive the Wei Wah drafts which are drawn by other banks or native banks.

The fact that the Bankers' Wei Wah drafts drawn by whatever banks or native banks are accepted without hindrance by whatever other banks or native banks is a phenomenon which is due not to the mere existence of credit on the part of particular banks or native banks. On the contrary, this fact is possible first and foremost because the process of settling the Wei Wah draft is carried on certainly and smoothly.

This smooth and certain settlement of Wei Wah draft, in turn, means precisely that the technical process of clearing is carried on smoothly and certainly; and for this, it is necessary that firstly there should be a sufficient amount of fund used for clearing purposes and secondly there should exist a mechanism of clearing capable of speedy functioning with such a fund as the centre.

Thus, it may be said that the foundation of the circulation of the "Bankers' Wei Wah" as currency in financial circles is found in that the fund for settlement of clearing account possesses the perfect monetary nature, although credit on the part of the banks or native banks drawing Wei Wah is also an important factor.

In the mechanism of clearing in Shanghai today, the fund used for settlement of clearing account is not *fapi*, legal tender which is cash currency. The balance of clearing of "Bankers' Wei Wah" cannot be paid in *fapi*. In consequence, the monetary nature of the fund used for settlement of clearing account has nothing to do with the *fapi*. The fund used for settling clearing account is created by the so-called *lingyung* Wei Wah; nay, the fund itself may be expressed by the word *lingyung* Wei Wah. Thus, it may be said that the fact that the "Bankers' Wei Wah" has the nature of money; or more broadly speaking, the formation of the Wei Wah system may be said to be based upon the fact that *lingyung* Wei Wah itself has the perfect attribute of money.

Why is it then that the *lingyung* Wei Wah has the nature of money? What is it that gives monetary nature to the *lingyung* Wei Wah? After all it is nothing more or less than agreement, or understanding or convention between the Joint Reserve Board of the Shanghai Bankers Association (上海銀行業同業公會聯合準備委員會) on one hand, and the banks and native banks, on the other. This agreement creates in the idea of the parties concerned that which is used in the settlement of payments, namely, money. Article 10 of the Regulations Governing the Adjustment of the Bankers' Wei Wah (同業匯割領用辦法) says: Each bank or native bank shall deposit as their Wei Wah current deposits with the Reserve Board the "Bankers' Wei Wah" which it has received from the Board, and shall receive cheque book in return. Each bank or native bank may use the cheque in making payment to other banks or native banks." Thus, each bank or native bank uses the cheque which is given in return to the "Bankers' Wei Wah" which are given out by the Reserve Board and which then are deposited with the same Board as their current Wei Wah deposits. The total amount of the *lingyung* Wei Wah granted at the outset stood at \$50,000,000. In other words, the current deposit of \$50,000,000 was made on the understanding that "the Reserve Board will advance a loan of \$50,000,000 to the banks and native banks collectively and these same banks and native banks will deposit the same sum with the Reserve Board as current Wei Wah deposit". Obviously, there is no real substance deposited but only is deposited \$50,000,000 sum brought about through the mutual understanding of indebtedness by the parties concerned. In other words, it is currency formed on their mutual indebtedness.

The *lingyung* Wei Wah fund is thus "money in idea" formed without any relation with *fapi*, the legal tender. One may, however, have a different view of the matter and say that there exists a real substance, so long as the *lingyung* Wei Wah fund is based on the securities offered by each bank or native bank. True, the reserve property composed

of various securities is a real substance, but such reserve assets as land or commodities are not used as currency, they being used for their original purposes. These are transferred in place of the *lingyung* Wei Wah only when a bank or native bank is unable to settle the clearing of the "Bankers' Wei Wah" drafts with their *lingyung* Wei Wah. The reserve property after all is a security and does not function itself as money.

CHAPTER 2. *LINGYUNG* WEI WAH AND *FAPI*

The monetary magnitude of the *lingyung* Wei Wah is expressed in terms of *fapi*, the legal tender. Thus, the sum of \$ 50,000,000 granted for the first time by the Reserve Board was \$ 50,000,000 in legal tender. So long as the monetary value of the *lingyung* Wei Wah is measured by that of the *fapi*, it may be said that the former has some connection with the latter, their monetary values thus being interrelated; although as has been observed, the *lingyung* Wei Wah is both uncashable and incapable of payment in legal tender with which it thus has no direct relation. Thus, the denomination of "*yuan*" (元) used in designating the *lingyung* Wei Wah is the same as that of the *fapi*, and for this reason the monetary value of the *lingyung* Wei Wah actually and usually varies according to the fluctuations of the *fapi*.

However, since the *lingyung* Wei Wah cannot be converted with the *fapi*, the monetary value of the former cannot be said depending on that of the latter. Convertible bank notes and subsidiary currencies are exchangeable with the standard currency, and their monetary values entirely depend on the latter. But there is no such relation between the *lingyung* Wei Wah and the *fapi*; the former must be regarded as being merely related to the value of the latter.

True, the monetary value of the *lingyung* Wei Wah and that of the *fapi* have a connection also through the reserve property which is offered as security. Now, let us see why the *lingyung* Wei Wah amounting to \$ 50,000,000 was issued

up to 70 per cent of the reserve property when the *lingyung* Wei Wah system was established. This is because the compensation of loss up to the remaining 30 per cent was anticipated in case the value of legal tender should rise. The loss in such a case being a loss in the value of legal tender, the monetary value of the *lingyung* Wei Wah must be considered as being related to that of the *fapi*. In other words, \$ 50,000,000 in the *lingyung* Wei Wah is the same as the monetary value of 70 per cent of the reserve property evaluated in legal tender at the time of the estimation at the outset of this system established, and should not be taken as 70 per cent of the reserve property at any time.

However, if one is to follow this view, one will have to admit that it is possible to issue the *lingyung* Wei Wah in an amount greater than \$ 50,000,000 for the original reserve property, in case the monetary value of *fapi* should depreciate. Furthermore, if the *lingyung* Wei Wah are issued to the amount of \$ 50,000,000, the reserve property may be reduced in amount. Now, the fact should be noted that, since the time of the establishment of the *lingyung* Wei Wah system, prices in Shanghai have steadily risen and *fapi* has depreciated not only in its domestic value but also in respect to both the pound sterling and the dollar. Despite this fact, the reserve property consisting of securities has not been reduced in amount. Nor have we ever heard of any expansion having been made in the amount of the *lingyung* Wei Wah issued. In the face of these facts, the amount of the *lingyung* Wei Wah granted may be considered as being 70 per cent of the amount of the reserve property, instead of 70 per cent of the value of the reserve property when it was offered at the outset.

As to the relation between the monetary value of the *lingyung* Wei Wah granted and that of *fapi*, it is a problem which concerns itself with the question of how the reserve property will be evaluated when used as security in settling the clearing account incapable of final settlement.

Now, there is no precedent or prescribed rules as to

how the reserve property will be evaluated when used in settling the clearing balance by a bank or native bank which is incapable of settling its account by the usual means of the *lingyung* Wei Wah. However, viewed from the spirit underlying the regulations concerned, it may be said that the amount of debts should be evaluated in *fapi* at the time of their actual payment, rather than in the amount evaluated at the time the reserve property was offered as security. Thus, an amount equal to the unpaid debts should be taken out of the reserve property for payment. Thus, in actual practice, the unpaid debt is paid in *fapi* out of the proceeds from the disposal of the reserve property.

In the light of this actual practice, it must be noted that the monetary value of the reserve property increases with the depreciation of *fapi* and in consequence the amount of the reserve property may be reduced to that extent. Furthermore, the amount of the *lingyung* Wei Wah may be increased on the same ground. We may, therefore, say that the monetary value of the *lingyung* Wei Wah is not only connected with that of *fapi*, but also in its base it is as a money not disconnected with the means by which it is convertible into *fapi*.

Another important fact in the relation between the *lingyung* Wei Wah and *fapi* is that both *fapi* (inspite of it being the legal tender) and national bonds are excluded from the reserve property for the *lingyung* Wei Wah. This must be intended to prevent direct relation between the *lingyung* Wei Wah, on one hand, and *fapi* and national bonds, on the other. This exclusion is also intended to avoid the dependence of the *lingyung* Wei Wah on legal tender, although both may have some connection in respect to their monetary value.

On one hand, the *lingyung* Wei Wah as "Bankers' Wei Wah" are unconvertible with *fapi*; and on the other hand, both *fapi* and national bonds are excluded from the reserve property for the *lingyung* Wei Wah, so that it may not depend on *fapi*. In consequence, the relation between the

two must be maintained through some property. This medium is found in the reserve property for the *lingyung* Wei Wah which is transferred and becomes *fapi* through its sale. Such a medium is necessary for the relation between the two currencies. In this case, if *fapi* existed as the reserve property, there would be direct relation between the *lingyung* Wei Wah and *fapi*. The exclusion of the latter from the reserve property in the *lingyung* Wei Wah system, as above noted, has been prepared to prevent such direct relation.

We have noted that the *lingyung* Wei Wah has some means by which it is convertible into the *fapi* and that in respect to its monetary value it has connection with *fapi*. But this conversion into the *fapi* is made only through the fulfilment of the debt obligation by the realization of security. Thus, its connection is indirect, and its monetary value can at any time detach itself from the *fapi* by fixing some basis of its value as well as the unit and denomination. For this reason, the *lingyung* Wei Wah cannot, in its essence, be regarded as a representative of the *fapi*.

There is a way by which the *lingyung* Wei Wah can take the place of the *fapi*, legal tender. That is the way of "discounting" (貼現). But this does not make any revision of the view that the *lingyung* Wei Wah is detached from the *fapi*. "Discounting" in this case has become totally different from that of the Wei Wah drafts by virtue of the Supplementary Regulations to the Emergency Regulations (安定金融補充辦法) promulgated on August 20, 1937. Prior to the promulgation of the Supplementary Regulations, the Wei Wah drafts were paid in the *fapi*, legal tender; and for this reason, discounting was merely an advance payment of interest.

Having become uncashable currency by virtue of the Supplementary Regulations, the "Bankers' Wei Wah" draft continued to be discounted nominally as had been done hitherto; but "discounting" as a matter of fact became merely sales. Those who paid the *fapi* in exchange for uncashable "Bankers' Wei Wah" draft would be unable to

receive the *fapi* unless they make a further "discount": this is totally different from the former condition in which Wei Wah drafts could be again converted into the *fapi* at the first future opportunity of settlement by the *fapi*. This may be likened to the fact that one who has purchased debentures or cotton yarn by the *fapi* is unable to secure the *fapi* unless he sells the same debentures or cotton yarn.

The practice of "discounting" the "Bankers' Wei Wah" drafts still continues as far as its appellation goes, but in reality it is not discounting, it being merely sales. For this reason, the direct convertibility of the "Bankers' Wei Wah" drafts and the *lingyung* Wei Wah with the *fapi* must not be interpreted in the same meaning with that of the Wei Wah drafts in the former times. At present the "Bankers' Wei Wah" drafts and the *lingyung* Wei Wah are "convertible" with the *fapi* in the same sense that debentures or cotton yarns are "convertible".

The *fapi* is both a controlled money and an unconvertible paper money but is not a money in substance like gold currency. But since it is made of paper, it is a concrete currency. The *lingyung* Wei Wah on the other hand, is not a concrete thing, and as has been observed it is based on the following understanding as if to say: The Reserve Board advances money amounting to \$ 50,000,000 to banks and native banks collectively, while the banks and native banks also collectively deposit the same \$ 50,000,000 with the Reserve Board". There is no other factor for the existence of the *lingyung* Wei Wah. Thus, an understanding itself forms money, and for this reason it is "money in idea".

Being "money in idea", the *lingyung* Wei Wah has no direct relation with any cash currency such as the *fapi* into which it cannot be converted. Should the *lingyung* Wei Wah make a further advance and become absolutely detached from cash currencies, it would become the most advanced form of money conceivable. For in such a case, general

purchasing power which denotes the essential character of money will exist in a purely abstract form, without taking any concrete form whatsoever. In other words, in such a case general purchasing power denoting the essential character of money will not depend on the value of any concrete substance itself which forms money as in the case of the gold or silver standard coins or convertible notes thereof, nor will it be expressed by concrete substances such as subsidiary currencies or unconvertible paper currencies; it moreover will exist clearly in an absolutely abstract form, and will function effectively as general purchasing power.

If the *lingyung* Wei Wah were indicated directly in the value of its reserve assets and a definite amount of the *lingyung* Wei Wah were evaluated according to a definite amount of the reserve assets without regard to the fluctuations of the *fapi*, it would be "money in idea" and would be absolutely divorced from cash currencies. However, in the present practice, the *lingyung* Wei Wah is the same as the *fapi* in its monetary value and varies with it, although in the relation of its payments, it is separated from the *fapi*. Thus, the *lingyung* Wei Wah must make some advance before attaining the status of the most advanced form of currency.

CHAPTER 3. FUND FOR CLEARING BALANCE IN THE *LINGYUNG* WEI WAH SYSTEM

As has been already described, the *lingyung* Wei Wah is intended primarily as a fund for settling the clearing balance. Each bank or native bank can use the cheque issued against the current deposits of the *lingyung* Wei Wah; the fund may be also sent to the interior regions in order to purchase local commodities. However, banks and native banks can issue the "Bankers' Wei Wah" drafts against themselves for the payment to their depositors and for the payment of their advances. For this reason, they need not use the *lingyung* Wei Wah fund for their

payments. They use it mainly for the settlement of the clearing balance of the "Bankers' Wei Wah" drafts drawn against themselves.

Some may think that after the advent of the new system of the *lingyung* Wei Wah, the former system of the "Bankers' Wei Wah" came to be prohibited or declined, but such a view is not true. Mr. Wang Feng-shih (王逢士) says that the new Wei Wah drafts circulate among the banks and native banks after they have been granted to them, and for this reason there is no difference between the old and new Wei Wah drafts¹⁾. Again, Mr. Chu Po-shih (朱博泉) has the following to say: "Now, let us ask what is the new Wei Wah system? Before taking up this system, it is necessary to consider the name of this system. This term is not so much precisely correct. Although lacking precision, this term has been used by both newspapers and bankers in the absence of more appropriate names. This new system has not altered the nature of Wei Wah after August 13, but in a nutshell it only strengthened the reserve fund which is necessary for the payment of the "Bankers' Wei Wah drafts". Mr. Chu believes that the "new Wei Wah system" is not precisely correct because it is liable to give the impression that the system has undergone alteration which is not true. What he says endorses the view that the *lingyung* Wei Wah fund has the basic function of settling the clearing balance.

The financial mechanism of China, taken as a whole, is still chiefly characterized by the circulation of cash currencies. And it is only in Shanghai that we witness the exceptional system of Wei Wah by which payment is settled by a mechanism of mutual indebtedness and clearing balance, and Wei Wah drafts are circulating.

In a country having a developed financial mechanism,

1) 王逢士, 上海匯劃制度之研究, 財政評論, 第三卷, 第二期, p. 54.

2) 朱博泉, 匯劃制度, 銀行週報, 第二十三卷, 第三十三期, p. 4.

gold or silver coins used to be its standard money, and they are with gold and silver bullions kept as the reserve for the issuance of convertible bank notes. The bank notes then are issued in an amount many times the amount of the standard coins and of gold and silver bullions, on security reserves. The convertible bank notes are then deposited in the banks, loaned out at a definite rate of reserve payment, and then again deposited and loaned out. By such a repetition of depositing and loaning out, a vast bulk of deposit currency is formed. Deposit currency is capable of functioning as currency because of the transfer of cheque used as medium is carried out smoothly. This is due to the condition in which the clearing balance fund in the centre of the clearing house mechanism has certain and safe credit. This fund is the deposits made at the central bank which is the central clearing organization of banks, and these deposits are of course made of the convertible bank notes issued by the central bank or standard currencies. If there may be cases in which loans made by the central bank form the clearing balance fund, such cases are very rare. At any rate, in such a case the circulation of cash currencies and that of deposit currencies take place alternately and on the same sphere.

The modern monetary mechanism as described above has undergone some transformation after the First World War. The standard coins made of gold or silver as well as gold or silver bullions came to be divorced from the fundamental basis of this mechanism; the convertible bank-notes which were suspended of convertibility or unconvertible paper moneys came to be issued on the reserves of securities which were mostly national bonds and commercial certificates; and in consequence deposit currencies also came to depend on bank notes or paper currencies and ceased to have the basis of the standard coins. However, no alteration has been made in the system in which the clearing balance fund has its basis on cash currencies such as bank notes or paper currencies and not necessarily on gold or

silver. Nor has any change been made in the circulation of the cash currencies and deposit currencies which is made alternately and on the same sphere.

But, as has been observed already, in the Wei Wah system in Shanghai, the *lingyung* Wei Wah existing as the fund for settling the "Bankers' Wei Wah" drafts are only connected with the *fapi*, legal tender, in two points: i. e. they have the denomination (*yuan* 元) in common and their monetary value is related to that of the *fapi*. The "Bankers' Wei Wah" which banks and native banks issue against themselves on the basis of the above fund are the settling fund of the monetary market as a deposit currency. Neither the "Bankers' Wei Wah" nor the *lingyung* Wei Wah are convertible with the *fapi*. In consequence, in this monetary mechanism the circulation of cash currencies and that of deposit currencies are not on the same sphere; on the contrary, they are on the two different spheres which do not meet together at all. Viewed from this point, the deposit currency of China may be said to be an unusual existence.

The "Bankers' Wei Wah" drafts which banks and native banks issue against themselves are the principal means in the circulation of the deposit currency in China. It is very seldom in China that merchants and others having commercial relations with banks and native banks issue cheque against the latter. For this reason, the deposit currency in China may be considered as existing only in the financial phase of the banks and native banks. And this is a mechanism which is formed on the *lingyung* Wei Wah "money in idea" and it has its existence on the understanding between the Reserve Board, on one hand, and the banks and native banks, on the other.

As has been observed, in China, especially in Shanghai, the sphere on which the *fapi*, legal tender, circulate and that on which the Wei Wah drafts, deposit currency, circulate are parallel and do not cross each other. Moreover, whereas the former is the sphere on which a concrete currency circulates, the latter is that on which a "money in idea"

circulates. The entire sphere of the circulation of the deposit currency formed of the "Bankers' Wei Wah" drafts is based on the *lingyung* Wei Wah which is a "money in idea", while the "Bankers' Wei Wah" itself also exists as a "money in idea" which is based on understanding between the banks and native banks on one hand and their customers on the other. In short, the whole mechanism of deposit currencies in China lies within the category of a "money in idea".

Although deposit currencies in other countries are also sort of "money in idea", they are founded on cash currencies which are concrete money. On the other hand, the "Bankers' Wei Wah" drafts which are deposit currency in China have no such connection with cash currencies. Here too concrete objects and ideas are separated from each other as is often the case in China. This may be considered as a peculiarity in the Chinese banking system.

CHAPTER 4. PLANNING OF THE WEI WAH CERTIFICATES

In the new Wei Wah system, Wei Wah certificates (匯劃證) are to be issued. They are to be four denominations, namely, 500 *yuan*, 1,000 *yuan*, 5,000 *yuan* and 10,000 *yuan*. They have not yet been issued so far, but when they are issued they would be another set of cash currencies existing side by side with the *fapi*.

The issuance of these certificates will be made according to the provision that "the Reserve Board shall be empowered to issue the Wei Wah certificates for the purpose of facilitating the transfer of the "Bankers' Wei Wah" Regulations for the Granting of Bankers' Wei Wah Article XI. (同業匯劃領用辦法). The certificates are also intended to be used for the settlement of the clearing balance accounts. For this reason, the Wei Wah certificates which are to facilitate the transfer of the "Bankers' Wei Wah" are meant to replace the latter in payment and in circulation. The Bankers' Wei Wah drafts are to be arbitrary in their

respective amounts and it is a matter of mere coincidence that the draft one receives happens to be the same in amount with the amount of payment one wishes to make. This inconvenience will be obviously avoided by the issuance of the Wei Wah certificates without fractions whose circulation will be increased. The certificates were planned for this purpose.

But if the certificates should circulate according to this planning, they would have become a sort of new cash currency. And inasmuch as these certificates are limited by security which is 70 per cent of the reserve assets, they are a controlled currency; and since they are unconvertible for anything, they also constitute unconvertible controlled currency which is issued by the Reserve Board (上海銀行業同業公會聯合準備委員會).

However, the Wei Wah certificates may be made and secured at will by the banks and native banks on their presentation of reserve assets. In Japan, the Money Law (貨幣法) provides in its Article 14 that "grant shall be given to the request for the making of gold coins upon presentation of gold bullion". Also our Japanese Convertible Bank Notes Regulations (兌換銀行券條例) have a provision to the effect that "the Bank of Japan or its branches shall exchange without a fee upon the request by any one for exchange of convertible bank notes upon presentation of gold coins". The Money Law has been suspended for a time being, while the above mentioned article of the Convertible Bank Notes Regulations have fallen into disuse due to the system of purchasing gold. But while these provisions were put into operation, the owners of gold bullions could exchange them for convertible bank notes which are cash currencies by undergoing the prescribed procedure.

In case the Wei Wah certificates should be issued, a similar phenomenon will be seen and the banks or native banks would be enabled to receive certificates to the amount of 70 per cent of the assessed value of the reserve assets presented as security. In other words, there will be a way

opened for the banks and native banks by which they could make cash currency at will in case of a financial necessity for such a measure.

The Wei Wah certificates being in such a mechanism, some believe that they have been planned in advance for the collapse of the *fapi* — to redeem the financial circle from confusion or to alleviate its blow from the death of the *fapi*. Whether such a view is correct or not, one can say that the certificates could fulfill the object for which they are supposed to be intended as above. One problem in such an eventuality will be what shall be the denomination of the unit value in view of the fact that the certificates will be separated from the monetary value of the *fapi*.

At any rate, at present the banks and native banks could issue the Bankers' Wei Wah at their own credit, without any secrcity at all. Thus, they have no necessity of requesting the Reserve Board to issue the Wei Wah certificates which would require the reserve property as security and which would be deemed rather inconvenient and disadvantageous.

Mr. Chu Po-shih (朱博泉) gives two reasons for the fact that the Wei Wah certificates are not issued although they have been planned. The first reason is that if the people should place the same monetary credit on the certificates that they put on the *fapi*, the certificates would be hoarded, and in consequence the reserve property presented by the banks and native banks will become fixed and thus would become unable to carry out its function of supplying capital. Secondly, the growth of monetary credit on the part on the people for the Wei War certificates will be liable to stimulate uneasiness for the *fapi*¹⁾. These reasons may be considered as plausible ones, but the more important one is the existing system under which the banks and native banks can issue on their own credit the "Bankers' Wei Wah" drafts as usual.

1) 朱博泉, op. cit., p. 5.

CHAPTER 5. THE DUAL MONETARY SYSTEM

Both the Bankers' Wei Wah drafts and the Wei Wah certificates are purely domestic currencies. The Supplementary Regulations to the Emergency Regulations (安定金融補充辦法) promulgated on August 20, 1937 says (Article 1): "Banks' and native banks' cash orders shall be stamped "Bankers' Wei Wah" which means that such orders can only be transferable among Shanghai banks and shall not be exchanged for either *fapi* (legal tender) or foreign currencies". Because of the above provision, these drafts and certificates cannot be exchanged for legal tender; nor can they be used in purchasing foreign currencies. They exercise their monetary function only within the country.

It has been already noted that the circulation of *fapi* and that of deposit currencies in China take place along two paralleled spheres, which are quite different and uninterchangeable with one another. Now, it should be noted that while the former is both domestic and external currency, the latter is a purely domestic currency and is not an external currency. This is one difference in their characters.

Today, the Wei Wah certificates are not yet issued but the "Bankers' Wei Wah" drafts are extensively used in Shanghai. We may therefore say China's currency mechanism is one of dual currency.

It is Mr. J. A. Yavdinsky¹⁾, who noting this duality of the Chinese currency system, advocates a system of dual currency for China. He explains his proposal as follows: "The idea leads us to the conclusion of a double system of financial structure for China with two currencies working in parallel, one — governmental with the present currency in hand, serving as the foundation for the entire system but practically devoted to international trade; the other, of similar legal tender properties, issued by the Bankers Asso-

1) J. A. Yavdinsky, "Dual Currency for China", Finance and Commerce, Shanghai, Vol. 34, No. 19., Nov. 8th. 1939, p. 395.

ciation, to serve the entire field of life, industry and trade, within the limits of China”.

Mr. Yavdinsky has several times explained his proposal for a dual currency but has not yet given concrete plans. His explanations, as given above, are all in abstract. Although we have no way of knowing his concrete proposals, we may suppose that his plans may be something as follows: to expand the system of the Wei Wah certificates, issue their denominations in the same amounts with those of *fapi*, and to limit the *fapi* to be used for international trade.

The *fapi*, it will be observed, is an unconvertible controlled currency. Now, in a country like China where perfect control of foreign exchange is almost impossible of actualization, controlled currency has its inherent weakness. If the Government should wish to maintain the external value of its controlled currency, the amount of its issue must be strictly limited; again, if the Government should wish to meet the demand of domestic commercial transactions as well as their own governmental demand, the amount of issue must be expanded at times. The adjustment of these two necessities can only be made through exchange control, which, however, is very difficult, if not impossible, of realization in China.

Mr. Yavdinsky appears to be convinced that, if the amount of the Wei Wah certificates issued should be based on the security of a definite amount of reserve property, commercial bills used as security will vary according to variations in commercial transactions; and further that the amount of issue will automatically vary according to domestic needs and thus maintain the suitable amount for currency demand.

Let us suppose for a moment that the *fapi* is used exclusively for external trade and the Wei Wah certificates for the people's daily life, industry and commerce. Under the present condition, *fapi* being issued principally for governmental purposes, if the amount of its issue be expanded to such an extent because of some necessity of financial

policy, that an inflation and even the ultimate collapse of the *fapi* will result, no ill effect will be felt by the people who will continue to enjoy their healthy economy, thanks to their own domestic currency having an automatic flexibility as the Wei Wah certificate above mentioned. It is not known whether or not what has been explained above is one of the aims of Mr. Yavdinsky's currency proposal, but this much is certain that no student of the present Chinese currency system can pass unnoticed the above state of affairs.